

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16764
October 30, 2003

RESOLUTION

Resolution T-16764. Ducor Telephone Company (U-1007-C). General Rate Case Filing in Compliance with G.O. 96-A, Paragraph VI, and Decision Number 01-02-018 and D.01-05-031.

By Advice Letter No. 277, 277A, and 277B filed on December 19, 2002, April 7, 2003, and July 8, 2003 respectively.

Summary

This resolution addresses the General Rate Case filed by Ducor Telephone Company (Ducor) through Advice Letter (AL) 277, 277A, 277B on December 19, 2002, April 7, 2003, and July 8, 2003, respectively, in compliance with D.01-05-031. All Ducor estimates referred to in this document are derived from AL 277B (277) unless otherwise noted. In AL 277, Ducor proposes: a) an increase of the reconnect charge from \$30.75 to \$35.50, b) an intrastate Rate of Return (ROR) of 10.00%, the same return granted by T-16007 in 1997, and c) an increase of \$1,281,522 or 116.74% in its California High Cost Fund-A (CHCF-A) draw for 2004 over its 2003 draw for a total of \$2,379,249.

This resolution authorizes total intrastate revenue in the amount of \$3,366,030 for Ducor for the test year 2004. This represents a reduction of \$371,823 to Ducor's estimate of \$3,737,853 for total intrastate revenue for 2004. The total intrastate rate base amount for Ducor is \$6,605,581 with an overall intrastate rate of return of 10.00% for the test year 2004. Ducor had requested a total intrastate rate base amount of \$6,867,831 and an authorized overall intrastate rate of return of 10.00%. Also authorized by this resolution is CHCF-A support for Ducor for test year 2004 of \$1,886,674. Ducor had requested CHCF-A support for 2004 of \$2,379,249. The authorized figure represents an increase in CHCF-A draw for 2004 by 68.46% or an increase of \$788,947 from its 2003 draw of \$1,097,727.

Appendix A shows Ducor's Intrastate Results of Operations as filed on December 19, 2002, April 7, 2003 and July 8, 2003. Appendix B compares the Telecommunication Division's and Ducor's Test Year 2004 Total Company Results of Operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix C compares the Telecommunication Division's (TD) and Ducor's Test Year Total Company Separated Results of Operations before any CHCF-A adjustment. Appendix D compares Ducor's and TD's Intrastate Results of Operations estimates for test year 2004. Appendix E shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%.

Background

Ducor Telephone Company, a local exchange telephone utility based in Ducor, California, provides local exchange telephone service in three exchanges; Rancho Tehama, Ducor, and Kennedy Meadows, serving approximately 1,200 customers.

On December 19, 2002, Ducor filed AL 277 in response to D.01-05-031, in which the California Public Utilities Commission (CPUC) set in motion the waterfall provision in 2003 requiring Ducor to file a General Rate Case (GRC) by the end of 2002. The last GRC filed by Ducor was filed on December 26, 1995 through an advice letter and its most recent intrastate results of operations was authorized by Resolution T-16007 dated April 9, 1997.

In AL 277, Ducor proposes: a) an increase of the reconnect charge from \$30.75 to \$35.50, b) an intrastate ROR of 10.00%, the same return granted by T-16007 in 1997, and c) an increase of \$1,288,279 in its CHCF-A draw for 2004 over its 2003 draw for a total of \$2,379,249. As requested by TD, Ducor updated its GRC filing with Supplement A to include actual 2002 information. The 2002 data resulted in a change in the requested CHCF-A support. Ducor requested \$2,368,484 in CHCF-A support, which was a decrease of \$66,546 from its original request. Ducor filed Supplement B to include public program audit expenses and Rural Telephone Bank (RTB) stock in rate base that had not previously been included in its test year estimates. After these changes, Ducor is requesting CHCF-A support of \$2,379,249. This is an increase of \$1,288,279 over its 2003 draw.

Notice/Protests

Ducor states that a copy of the Advice Letters and related tariff sheets was mailed to competing and adjacent utilities and/or other utilities. Notice of ALs 277, 277A, and 277B were published in the Commission Daily Calendar on December 23, 2002, April 09,

2003, and July 18, 2003, respectively. The advice letter filings for AL 277 and 277A were noticed to customers by bill insert on December 18, 2002, and April 9, 2003, respectively. AL 277B was not noticed to customers because only minor revisions were made to the filing. No protest to these Advice Letters has been received.

TD held a Public Meeting in Ducor on May 21, 2003, at which time Ducor was given the opportunity to explain its filing to its customers and while also allowing Ducor's customers the chance to ask questions of Ducor and TD. Ducor's customers were given notice of the Public Meeting through a bill insert. Notice of the Public Meeting was also published in the CPUC Daily Calendar. No customers attended the Public Meeting.

Discussion

Results of Operations

TD calculates that Ducor will earn in test year 2004 a total company overall rate of return of 4.66% at present rates as compared to Ducor's calculation of 1.73%. TD's estimates for Ducor reflect revisions to Ducor's estimates of revenues, expenses, and rate base as discussed below. Appendix B sets forth Ducor's total company separated results of operations for the test year 2004, as estimated by TD and Ducor.

Operating Revenues

A comparison of TD's and Ducor's estimates of total company operating revenues for test year 2004 is shown in Appendix C. Ducor's estimate of total company operating revenues is \$3,898,008, a difference of \$126,945 from TD's estimate of \$3,771,063. The reasons for the differing estimates are further described below.

Local Revenue

Ducor estimated local revenues by multiplying its forecasted access lines for the test year by the tariff rates and charges. Local access line numbers were forecasted using historical growth information and judgment. Ducor also proposes an increase in one local service charge, an increase of the reconnect charge from \$30.75 to \$35.50 in its schedule number A-14. TD finds this increase reasonable as it places this charge more in line with what other carriers are charging. Ducor's estimate for local revenue is \$300,364. TD does not accept Ducor's estimate for local revenue because it does not provide a reasonable estimate of test year conditions. TD therefore recalculates Ducor's local access revenue estimate using the following methodology. TD used Ducor's recorded data for years 1997-2002 to derive the average revenue per line. This results in the same average revenue per line figure as Ducor recorded for 2002. TD then applied Ducor's 2002-recorded revenue per line figure to Ducor's estimate of access

lines for the test year 2004. TD estimates local revenue for the test year to be \$308,898, an increase of \$8,534 over Ducor's estimate.

Intrastate Access Revenue

To estimate Access Revenues, Ducor multiplied its forecasted Minutes of Use (MOU) for Schedule B-6 (Access Service) by the tariff rates. The forecasted units for the test year were developed based on a growth rate of 0.88% (two year average for 2001 – 2002). Ducor's estimate for Access Revenue for the test year 2004 is \$298,075.

When TD reviewed Ducor's recorded Access Revenues for the years 1997 through 2002, it found that Access Revenues have dropped dramatically from \$1.2 million in 1997 to only \$295,190 in 2002 (due to the switch from Pacific Bell Access Pool Settlements to NECA tariffs/CHCF-A support). Since Access Revenues have declined so dramatically, TD decided to use only Ducor's most recent recorded data. TD did so by applying Ducor's 2002 recorded access revenue per line ratio (\$256/line) to Ducor's estimate of end user 2004 access lines (1179 lines) to derive its test year 2004 Access Revenue estimate of \$301,824. TD's estimation method more accurately represents Ducor's Interstate Access Revenues for the test year.

Interstate Universal Service Fund

To support its estimate for Interstate Universal Service Fund (USF), Ducor submitted a copy of its National Exchange Carriers Association (NECA), Universal Service Fund 2002 Data Collection Form. The form states that for Ducor's test year 2004, its USF Annual Compensation at full payment will be \$719,475. TD has verified and accepts this estimate.

Interstate Access Revenue

Ducor's Interstate Settlement Revenues for 2004 were developed by a revenue requirement calculation similar to the calculation administered by NECA. This calculation uses the authorized interstate rate of return of 11.25%. Ducor's estimate is based on its 2001 Interstate Cost Study.

TD supports the Company's model that estimates Interstate Access Revenue as a function of the total company rate base and expense amounts. TD therefore applied the same separation factors to distinguish between State and Interstate jurisdiction of estimates. Any difference in TD's and Ducor's calculations of Interstate Access Revenue is the result of differing estimates for Total Company Results of Operations. TD's estimate of \$1,206,076 is \$161,403 or 12.00% lower than Ducor's estimate for Interstate Access Revenue.

Miscellaneous Revenue

For miscellaneous revenues, Ducor asserts that billing and collection services have historically been declining due to Interexchange carriers taking back those functions. Ducor therefore forecasts miscellaneous revenues not to grow and applies current rates and demand to develop its test year miscellaneous revenues. Ducor estimates miscellaneous revenues for the test year 2004 to be \$66,998. TD made a historical analysis of miscellaneous revenues. It notes that miscellaneous revenues are not diminishing, but rather have fluctuated over the 5 recorded years of data provided by Ducor. For this reason, TD does not accept Ducor's estimate for miscellaneous revenues and estimates miscellaneous revenues for test year 2004 to be \$70,673. TD used a five-year average of revenue per line for years 1998-2002 of recorded data and multiplied it by Ducors's estimate of access lines for the test year 2004 to arrive at its estimate.

Uncollectibles

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Ducor estimates local bad debt at \$430 and contends that it will remain consistent with historical figures. However, Ducor explains that the, "Bad Debt on Intrastate Access Revenue was historically part of the settlement process and as such was absorbed by the settlement pools. Now that Ducor is no longer in the settlement pool bad debt on intrastate access is a greater risk. This was highlighted by the recent bankruptcy [sic] of Worldcom and Global Crossing, which accounts for the large bad debt in 2002". Ducor assumes that the intrastate access bad debt it incurred in 2002 of \$18,255 due to the bankruptcy will continue in 2004.

TD does not agree with Ducor's estimate of test year 2004 uncollectibles. Although TD finds Ducor's estimate for local bad debt of \$430 to be reasonable, TD does not find Ducor's uncollectibles estimate of \$18,500 for intrastate access revenue bad debt to be reasonable. The recent WorldCom and Global Crossing bankruptcies are a one-time occurrence and Ducor will not incur similar bad debt on an annual recurring basis. TD therefore, disallows \$18,500 of bad debt associated with intrastate access revenue and estimates intrastate uncollectibles to be \$430 for the test year 2004.

If Ducor incurs similar access revenue bad debt as the result of continued bankruptcy filings by interexchange carriers and does not receive remedy from applicable court decisions, Ducor is then encouraged to seek remedy from the Commission for those lost revenue amounts. Ducor may not seek remedy from the Commission for those debts incurred due to bankruptcy filings until the bankruptcy proceedings have been finalized and monies dispersed, if any. This delay is required to avoid the potential of

Ducor double recovering any of the bad debt it has incurred as the result of bankruptcy filings.

Operating Expenses

Ducor's test year forecasts for operating expenses were calculated using a growth rate of 8.00% applied to the last recorded year 2002 plus an adjustment in 2004 for rate case expenses amortized over 3 years.

TD's test year operating expense estimates are based on a combination of methodologies. TD applied three varying methodologies to the sub-accounts contained in: a) plant specific expenses, b) plant non-specific expenses, c) customer operations expenses, and d) corporate operations expenses. TD then chose by sub-account, the methodology it deemed was most appropriate for estimating the test year figures.

The methodologies used were as follows:

- Constant dollar average based on three years of recorded expenses. Results from the constant dollar method were used when they were found to be relevant and were not below Ducor's 2001 recorded figures.
- Regression analysis based on 5 years of recorded expenses. For regression analysis, only those accounts found to have a coefficient of determination of 90% or higher were considered. A coefficient of determination closer to one (100%) indicates a greater degree of relationship.
- Three and five-year averaging of recorded expenses with inflation applied for test year estimates.

Plant Specific Expenses

Plant specific expenses include expenses related to telephone plant. These include components for network support, general support, central office switching, operator systems, transmission, originations and termination, and cable and wire. Ducor estimates plant specific expenses for test year 2004 to be \$963,650. TD's estimate for plant specific expenses for 2004 is \$709,650. This represents a reduction of \$254,000 from Ducor's estimate.

Plant Non-Specific Expenses

Plant non-specific expenses include such expenses as those related to network administration, testing, engineering, access to the network and power. Ducor's plant non-specific expenses estimate for test year 2004 is \$176,700. TD reviewed and

analyzed Ducor's recorded expenses for this account from the years 1998 through 2002 and finds Ducor's estimate to be reasonable.

Customer Operations Expense

Customer operations expenses include components for marketing and customer operations. For customer operations expenses Ducor's estimate is \$262,377 for test year 2004. TD's estimate for this expense category is \$243,062. This represents a reduction of \$19,315 from Ducor's estimate for test year 2004 customer operations expenses.

Corporate Operations Expense

The corporate operations expense account included components for executive and planning, and general and administrative. Ducor estimates its test year 2004 corporate operations expenses to be \$1,166,858. TD's estimate for corporate operations expense is \$928,561. This represents a reduction of \$238,297 from Ducor's test year estimate.

Ducor also included rate case expenses in the amount of \$8,971 that it incurred due to an audit conducted by the Public Programs Branch. Since this audit does not occur annually, this amount should be amortized over a three-year period. Three years are a reasonable period since CHCF-A funding remains at 100% only for the first three years after a GRC, at which time the funding is automatically reduced by 20%. Conceivably a small LEC could file a GRC after every three years to retain 100% CHCF-A support. Therefore, TD recommends that the rate case expense in the amount of \$2,990 (\$8,971 amortized over three years) should be included in the 2004 test year expenses.

Taxes

The differences in tax estimates are due to variations in Ducor's and TD's revenue and expense estimates. Ducor and TD each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34%. TD estimates Ducor's test year 2004 intrastate taxes for CCFT and Federal Income Tax to be \$38,267 and \$134,171, respectively.

Depreciation

To calculate depreciation expenses, both Ducor and TD utilized the same methodology and depreciation rates previously adopted by the Commission for Ducor. Ducor estimates its depreciation expense to be \$1,080,835 whereas TD's estimate is \$1,043,278. The difference of \$37,557 in depreciation expense is due to differing plant-in-service estimates. TD's depreciation expense estimate was calculated using TD's plant-in-service estimate for the test year 2004, multiplied by the depreciation rates authorized

by the Commission in Ducor's 1997 general rate case, to derive its test year depreciation expense estimate.

Rate Base

Plant in Service

Ducor's plant in service estimate is based on 2002-recorded information plus the addition of the utility's planned capital budget expenditures for 2003 and 2004. Ducor estimates average plant in service for test year 2004 to be \$15,214,479. TD estimates average plant in service for test year 2004 to be \$14,892,476. This difference is the result of a reduction in the cost of Ducor's planned switch upgrade that is included on the 2004 capital budget. Ducor informed TD that the estimate included in the original capital budget for the switch would be reduced. TD, therefore, estimated a reduced cost for the switch upgrade and modified the plant in service figures according to the updated information provided by Ducor.

Ducor included \$40,085 RTB stock when it borrowed funds from the Rural Telephone Bank (RTB). Though the loan was provided at a lower cost, a requirement was that Ducor must use a certain amount of the loan to purchase stock in the RTB. Ducor included the stock in the rate base to compensate for the required investment. Furthermore, Part 65 of the Code of Federal Regulations included RTB stock as a component of rate base. Therefore, TD agrees with Ducor to include the \$40,085 RTB stock in its rate base estimate and added it to Ducor's total plant in service estimate.

Construction Work in Progress

Ducor's estimate for construction work in progress is \$227,617. Ducor's estimate is based on a percent of plant in service. Ducor's analysis revealed that an estimate based on a historical percentage of plant in service would be unrealistically high. Ducor management believes that 1.5% of total plant in service to be more realistic for the test year 2004. TD finds Ducor's estimate reasonable and therefore accepts its 2004 estimate, as submitted.

Materials and Supplies

Ducor used 0.83% of the average plant in service balance to determine its test year total company materials and supplies estimate of \$126,196. Based on the recorded ratio of materials and supplies expense to plant in service for the past five years 1998-2002, TD finds Ducor's materials and supplies estimate to be excessive. TD estimates a materials and supplies expense of \$107,673 for the 2004 test year. TD's estimate is based on a five year recorded average of 0.73% of average plant for the years 1998-2002.

Working Cash

Ducor estimates its 2004 test year working cash requirement to be \$249,223 whereas TD's estimate is \$202,385. TD and Ducor both utilized the Simplified Method described in Standard Practice U-16 to calculate working cash and arrive at the above estimates. The differences in the figures are the result of differing expense and revenue estimates.

Deferred Income Taxes

Ducor estimated the Deferred Income Taxes (DIT) by taking the ratio of the 2002 average DIT to the 2002 average plant in service. A negative 5.14% ratio was then applied to the forecasted 2003 and 2004 plant in service to derive the 2004 DIT. TD reviewed and analyzed Ducor's recorded DIT from the years 1998 through 2002 and finds Ducor's estimation method to be reasonable. Any difference in the DIT estimate is due to variations in Ducor's and TD's plant in service estimates. TD estimates Ducor's test year 2004 DIT to be \$765,123.

Separations

Ducor provides both intrastate and interstate telecommunications services, subject to regulation of the CPUC and FCC, respectively. Because Ducor's property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and federal jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs of the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

Ducor used the most recent available separation factors. TD reviewed Ducor's separation factors and finds them to be reasonable. Therefore, TD used the separation factors provided by the utility to separate its estimates for total company expenses and plant to derive TD's estimates for Ducor's intrastate results of operations.

Appendix C compares Ducor's and TD's total company, interstate, and intrastate results of operations for test year 2004 using these factors. Appendix D shows the difference between Ducor's and TD's 2004 intrastate results of operations.

Cost of Capital

Ducor requests an overall intrastate rate of return of 10.00%, the rate of return authorized by the Commission for Ducor in 1997 by Resolution T-16007.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. In Decision D.97-04-035, the Commission authorized Ducor a 10.00% return on rate base for its 1997 test year as requested in A.95-12-076. The risks faced by rural ILECs appear similar today as in the recent past, therefore TD recommends that the Commission approve Ducor's request for an overall rate of return of 10.00% at this time.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenue. Appendix E shows TD's computation of Ducor's net-to-gross multiplier. The net-to-gross multiplier of 1.6608 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Ducor, based on an adopted intrastate rate base of \$6,605,581 and an adopted rate of return of 10.00%, the adopted intrastate revenue requirement change required is \$743,098.

CHCF-A

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Funds that Pacific Bell paid the small LECs through toll and access pool settlement payments were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific Bells statewide average toll, toll private line, and access rates (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times urban rates as necessary, and both means test and the waterfall provisions shall apply.

TD calculated Ducor's CHCF-A support for test year 2004 at present rates to be \$1,164,547. The CHCF-A 2004 support is derived from using Ducor's 2003 draw of \$1,090,970, adding the NECA estimated USF Federal support for 2003 of \$793,052, and subtracting Ducor's projected 2004 USF Federal support of \$719,475.

For the test year 2004, TD's computation of Ducor's CHCF-A requirement is \$1,907,645 based on TD's projected revenues, expenses, rate base and 10.00% overall intrastate rate of return.

Comments

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

On October 13, 2003, Cooper, White and Cooper, LLC (Cooper) filed timely comments on the behalf of Ducor. Cooper raised the following issues with the draft resolution (DR):

1. The DR understates Evans' test year expenses.
2. The DR excludes rate case expenses.
3. The DR excludes uncollectibles for intrastate access revenue
4. The DR references proposed 2003 CHCF-A draw instead of actual 2003 CHCF-A draw.

Ducor's comments on expenses are primarily concerned with the method that TD used to estimate expenses. Ducor argues that the methodologies utilized by TD do not properly reflect Ducor's operating expenses. Ducor notes that TD's estimate for the test year is less than the recorded expense level for 2002. They believe it is implausible that Ducor experiencing increasing costs over the last several years would realize lower expenses in the test year. As Ducor iterates, "the inadequacy of the DR's findings are most evident... [due to] the DR's elimination \$511,612 of the Company's test year operating expenses."

TD used a combination of, a) the constant dollar method (CDM), b) regression analysis, and c) averaging, to estimate expenses for the test year. These methods were specifically chosen on a per item basis in an effort to apply the method TD found to be most appropriate to specific accounts. After consideration of Ducor's comments TD adheres to its expense estimates as stated in the DR with one modification. TD uses the inflation escalation factors provided by the Office of Ratepayer Advocates in the January 31, 2003, memorandum for the test year 2004. This increases TD's estimate of Ducor's total expenses to \$2,150,423 an increase of \$52,450 over TD's initial estimate in the DR..

In its comments Ducor recognizes that TD's expense calculations do not include rate case expenses. TD also recognizes this problem and will now include the \$40,000 associated with Ducor's GRC expenses in its expense estimate. This change will be reflected in Ducor's Results of Operations Pages.

The DR disallows \$18,000 in bad debt associated with intrastate access revenue. In its comments on the draft resolution, Ducor acknowledges that TD encourages it to seek remedy from the Commission for lost access revenue recovery, but argues that TD does

not specify a procedure for securing such a remedy outside the context of a general rate case filing.

Ducor proposes the Commission include an ordering paragraph specifying the process for Ducor to be made whole for all uncollectible access revenue. Ducor suggests that the Commission should order Ducor to include net uncollectible access revenue in its annual CHCF-A filing.

TD responds that to allow Ducor to recover the net uncollectible revenue from its CHCF-A annual filings would not ensure that Ducor had made every reasonable effort to collect access revenues from either bankrupt carriers and/or from those carriers that are overdue in paying access revenues to Ducor. TD reiterates its position in the draft resolution that Ducor not seek remedy from the Commission until bankruptcy proceedings (if any) have been finalized and monies dispersed. Only then does TD recommend that Ducor file a specific application with the Commission to seek recovery of net uncollectible access revenues. TD still firmly believes that today, there are sufficient safeguards in place to mitigate and minimize the effects of a situation similar to that incurred by WorldCom.

We agree with TD's position, and decline to allow Ducor to seek recovery of net uncollectible access revenues in annual CHCF-A filings. Ducor should instead file a specific application to seek recovery of any net uncollectible access revenues if it believes its overall revenues are greatly eroded such that Ducor is in a precarious financial position.

However for Ducor, the company has specifically identified \$11,868 in total company uncollectible revenues associated with the bankruptcies of MCI/WorldCom and Global Crossing. Ducor indicates that it has recovered \$6,132 to date leaving the remaining balance of \$11,868 to be collected. Ducor also provided documentation that it was waiving further rights to any more monies from the bankruptcy proceedings. Given this, TD believes that it is appropriate to include the \$11,868 as a one-time uncollectible revenue for 2003 only. We concur with TD's recommendation and will authorize recovery for \$11,868 only. For 2005 and beyond, we will require TD to make adjustments to the CHCF-A fund to reduce the draw by \$11,868.

Ducor asserts that the DR incorrectly states Ducor's 20003 CHCF-A draw. The DR references the figure provided to TD by Ducor in its workpapers and supplements. TD will update the DR to reflect Ducor's authorized 2003 CHCF-A draw.

TD also proposes two additions on its own initiative to the draft resolution mailed to interested parties in September 2003. The first involves updated Universal Service Fund (USF) support amounts authorized for TY 2004 from the National Exchange Carriers Association (NECA) and received by TD on October 2, 2003. The new USF

support amount for Ducor is \$805,769 and TD has updated its calculations involving USF amounts in Ducor's Results of Operations tables.

In discussions with Ducor since the mailing of the draft resolution in September, TD also agreed that Ducor may use its next Supplement Number for Ducor's GRC advice letter filing to submit tariff sheets for an updated Table of Contents, revised tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to California Teleconnect Fund (CTF) funding. TD recommends that these new tariff sheets be made effective January 1, 2004.

We concur with TD's recommendations for these additional changes.

Findings

1. Ducor filed its GRC on December 19, 2002, with a Test Year of 2004 in compliance with D.01-05-031.
2. Ducor requests the following for test year 2004:
 - An increase in its reconnect charge from \$30.75 to \$35.50 in schedule number A-14.
 - An intrastate rate of return of 10.00%, the same return granted to it in its last GRC filing in 1997, and
 - A total intrastate rate base amount of \$6,867,831.
 - An increase in its CHCF-A draw for 2004 over 2003 of \$1,288,279 for a 2004 CHCF-A support of \$2,379,249.
3. The Telecommunications Division recommends the following for Ducor for test year 2004:
 - An increase in Ducor's reconnect charge from \$30.75 to \$35.50.
 - An intrastate rate of return of 10.00%
 - A total intrastate rate base amount of \$6,605,581; and
 - A CHCF-A support of \$1,886,674 representing a reduction of \$492,575 from Ducor's CHCF-A 2004 support estimate.
4. Because of the WorldCom and Global Crossing bankruptcy, there is a one-time uncollectible amount of \$11,868. This will be added to the CHCF-A draw for 2004, but will be removed in 2005. (See Appendix E) With this addition the total 2004 CHCF-A support is \$1,898,542
5. The differences in the estimates of Ducor and TD result from the use of different methodologies for estimating revenues, expenses, and rate base.

6. The Commission finds TD's recommended overall rate of return of 10.00% for Ducor to be reasonable.
7. The Commission finds Ducor's Depreciation Study, previously approved by the Commission as part of its 1997 general rate case to be acceptable for ratemaking purposes for the test year 2004.
8. The Commission finds TD's methodology in estimating revenues, expenses, and rate base reasonable. The Commission therefore adopts TD's recommended intrastate estimates shown in Appendix D.
9. The Commission finds TD's recommended \$1,886,674 CHCF-A support for Ducor for 2004 to be acceptable. The \$1,886,674 support is based on the Commission's adoption of TD's Intrastate Results of Operations for Ducor for test year 2004.
10. The Commission finds that the additional amount of \$11,868 for uncollectible revenue due to the WorldCom bankruptcy is reasonable and therefore the total CHCF-A support for 2004 is \$1,898,542.
11. The Commission finds Ducor's request to increase the reconnect charge from \$30.75 to \$35.50 in its schedule number A-14 to be reasonable.
12. Commission approval is based only on the specifics of this Advice Letter.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2004 identified in Appendix D, column (e) are adopted for Ducor Telephone Company.
2. The overall intrastate rate of return of 10.00% is adopted for Ducor Telephone Company for test year 2004.
3. Ducor Telephone Company's CHCF-A yearly support for 2004 is \$1,898,542 with a resulting monthly support of \$158,211.
4. Ducor is granted authority to revise the tariffs for the changes described in AL Nos. 277, 277A, and 277B using the next Supplement Number for that AL. The revised tariff sheets will include the updated Table of Contents, the renumbering of the tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to CTF funding. These tariff sheets shall be effective on January 1, 2004, if accepted by the Telecommunications Division staff.

5. The depreciation rates submitted by Ducor Telephone Company in support of its General Rate Case Advice Letter Number 277 are adopted for ratemaking purposes for test year 2004.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 30, 2003. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

Appendix A
Ducor Telephone Company
Intrastate Results of Operations
Test Year 2004
Per AL 277, 277A, and 277B

	AL 277 12/19/03 (a)	Difference (b)	AL 277A 4/7/03 (c)	Difference (d)	AL 277B 7/8/03 (e)
Operating Revenues:					
Local Rev.	295,764	4,599	300,364	0	300,364
Intrastate:				0	
Access Rev.	295,296	2,779	298,075	0	298,075
Toll Rev.	0	0	0	0	0
Interstate USF	693,395	26,080	719,475	0	719,475
Interstate Access Rev.	0	0	0	0	0
Miscellaneous Rev.	43,747	15,873	59,620	0	59,620
CHCF - A	1,190,627	(26,080)	1,164,547	0	1,164,547
Less: Uncollectibles	(20,990)	2,060	(18,930)	0	(18,930)
Total	2,497,840	25,312	2,523,151	0	2,523,151
Operating Expenses:					
Plant Specific	719,380	(19,963)	699,417	0	699,417
Plt. Non-Spec.(less Depr.)	134,492	(4,282)	130,210	0	130,210
Customer Operations	182,284	5,263	187,547	0	187,547
Corporate Operations	811,724	(2,553)	809,171	5,763	814,934
Subtotal	1,847,880	(21,535)	1,826,345	5,763	1,832,108
Depr. & Amort.	774,623	3,902	778,525	0	778,525
Other Taxes	56,832	3,583	60,415	0	60,415
State Income Taxes	(29,048)	6,580	(22,468)	(509)	(22,977)
Federal Income Taxes	(101,848)	23,073	(78,775)	(1,786)	(80,561)
Total	2,548,439	15,603	2,564,042	3,468	2,567,510
Net Operating Income	(50,599)	9,709	(40,891)	(3,468)	(44,359)
Rate Base:					
2001 - TPIS	11,256,252	(74,212)	11,182,040	29,539	11,211,579
2003 - TPUC	168,844	(1,113)	167,731	0	167,731
1220 - Mat. and Sup.	67,040	28,591	95,631	0	95,631
Working Cash	214,678	(36,591)	178,087	556	178,643
Less: Accum. Depr.	4,238,463	(8,886)	4,229,578	0	4,229,578
Less: Deferred Tax	483,154	72,363	555,517	0	555,517
Less: Customer Deposits	1,209	(551)	659	0	659
Total Rate Base	6,983,987	(146,251)	6,837,736	30,095	6,867,831
	-0.72%		-0.60%		-0.65%

Appendix B
Ducor Telephone Company
Total Company Results of Operations
Test Year 2004
AL 277B, (07/08/03)

	DUCOR	TD	Utility Exceed Staff Estimate Amount (c)=(a-b)	Percentage (d)=(c/a)
	(a)	(b)		
Operating Revenues:				
Local Rev.	300,364	308,898	(8,534)	(2.84)
Intrastate:				
Access Rev.	298,075	301,824	(3,749)	(1.26)
Toll Rev.				
Interstate USF	719,475	805,769	(86,294)	(11.99)
Interstate Access Rev.	1,367,479	1,231,087	136,392	9.97
Miscellaneous Rev.	66,998	70,673	(3,675)	(5.48)
CHCF - A	1,164,547	1,164,547	0	0.00
Less: Uncollectibles	(18,930)	(430)	(18,500)	97.73
Total	3,898,008	3,882,368	15,640	0.40
Operating Expenses:				
Plant Specific	963,650	727,391	236,259	24.52
Plt. Non-Spec.(less Depr.)	176,700	181,118	(4,418)	(2.50)
Customer Operations	262,377	249,139	13,238	5.05
Corporate Operations	1,166,858	992,775	174,083	14.92
Subtotal	2,569,585	2,150,423	419,162	16.31
Depr. & Amort.	1,080,835	1,043,278	37,557	3.47
Other Taxes	81,985	81,985	0	0.00
State Income Taxes	1,268	39,934	(38,666)	(3049.37)
Federal Income Taxes	4,445	140,015	(135,570)	(3049.94)
Total	3,738,118	3,455,635	282,483	7.56
Net Operating Income	159,890	426,733	(266,843)	(166.89)
Rate Base:				
2001 - TPIS	15,214,519	14,892,476	322,043	2.12
2003 - TPUC	227,617	223,387	4,230	1.86
1220 - Mat. and Sup.	126,196	107,673	18,523	14.68
Working Cash	249,223	202,385	46,838	18.79
Less: Accum. Depr.	5,773,380	5,753,266	20,114	0.35
Less: Deferred Tax	780,659	765,123	15,536	1.99
Less: Customer Deposits	894	894	0	0.00
Total Rate Base	9,262,623	8,906,638	355,985	3.84
Rate of Return	1.73%	4.79%		

Appendix C
Ducor Telephone Company
Separated Results of Operations
Test Year 2004
AL 277B, (07/08/03)

	DUCOR			TD		
	Total Company	Interstate	Intrastate	Total Company	Interstate	Intrastate
	(a)	(b)	(c)=(a-b)	(d)	(e)	(f)=(d-e)
OPERATING REVENUES						
Local Rev.	300,364		300,364	308,898		308,898
Intrastate:						
Access Rev.	298,075		298,075	301,824		301,824
Toll Rev.						
Interstate USF	719,475		719,475	719,475		719,475
Interstate Access Rev.	1,367,479	1,367,479		1,231,087	1,231,087	0
Miscellaneous Rev.	66,998	7,378	59,620	70,673	7,378	63,295
CHCF - A	1,164,547		1,164,547	1,164,547		1,164,547
Less: Uncollectibles	(18,930)		(18,930)	(430)		(430)
Total	3,898,008	1,374,857	2,523,151	3,882,368	1,238,465	2,643,903
OPERATING EXPENSES						
Plant Specific	963,650	264,233	699,417	727,391	199,451	527,940
Plt. Non-Spec.(less Depr.)	176,700	46,490	130,210	181,118	47,652	133,466
Customer Operations	262,377	74,830	187,547	249,139	71,054	178,085
Corporate Operations	1,166,858	351,924	814,934	992,775	299,421	693,354
Subtotal	2,569,585	737,477	1,832,108	2,150,423	617,578	1,532,845
Depr. & Amort.	1,080,835	302,310	778,525	1,043,278	291,805	751,473
Other Taxes	81,985	21,570	60,415	81,985	21,570	60,415
State Income Taxes	1,268	24,245	(22,977)	39,934	23,715	16,219
Federal Income Taxes	4,445	85,006	(80,561)	140,015	83,150	56,865
Total	3,738,118	1,170,608	2,567,510	3,455,635	1,037,818	2,417,817
Net Operating Income	159,890	204,249	(44,359)	426,733	200,647	226,086
RATE BASE						
2001 - TPIS	15,214,519	4,002,940	11,230,572	14,892,476	3,918,210	10,974,266
2003 - TPUC	227,617	59,886	167,731	223,387	58,773	164,614
1220 - Mat. and Sup.	126,196	30,565	95,631	107,673	26,078	81,595
Working Cash	249,223	70,580	178,643	202,385	57,315	145,070
Less: Accum. Depr.	5,773,380	1,543,802	4,229,578	5,753,266	1,538,423	4,214,843
Less: Deferred Tax	780,659	225,142	555,517	765,123	220,661	544,462
Less: Customer Deposits	894	235	659	894	235	659
Total Rate Base	9,262,623	2,394,792	6,867,831	8,906,638	2,301,057	6,605,581

RATE OF RETURN 1.73% 8.53% -0.65% 4.79% 8.72% 3.42%

Appendix D
Ducor Telephone Company
Intrastate Results of Operations at Adopted Rate of Return
Test Year 2004
AL 277B, (07/08/03)

	DUCOR	TD	Utility Exceed Amount	Staff Estimate Percentage	Adopted
	(a)	(b)	(c)=(a-b)	(d)=(c/a)	(e)
Operating Revenues:					
Local Rev.	300,364	308,898	(8,534)	(2.84)	308,898
Intrastate:					
Access Rev.	298,075	301,824	(3,749)	(1.26)	301,824
Toll Rev.					
Interstate USF	719,475	805,769	(86,294)	(11.99)	805,769
Interstate Access Rev.					
Miscellaneous Rev.	59,620	63,295	(3,675)	(6.16)	63,295
CHCF - A	2,379,249	1,886,674	492,575	20.70	1,886,674
Less: Uncollectibles	(18,930)	(430)	(18,500)	97.73	(430)
Total	3,737,853	3,366,030	371,823	9.95	3,366,030
Operating Expenses:					
Plant Specific	699,417	527,940	171,477	24.52	527,940
Plt. Non-Spec.(less Depr.)	130,210	133,466	(3,256)	(2.50)	133,466
Customer Operations	187,547	178,085	9,462	5.05	178,085
Corporate Operations	814,934	693,354	121,580	14.92	693,354
Subtotal	1,832,108	1,532,845	299,263	16.33	1,532,845
Depr. & Amort.	778,525	751,473	27,052	3.47	751,473
Other Taxes	60,415	60,415	0	0.00	60,415
State Income Taxes	94,306	80,055	14,251	15.11	80,055
Federal Income Taxes	330,650	280,684	49,966	15.11	280,684
Total	3,096,004	2,705,472	390,532	12.61	2,705,472
Net Operating Income	641,849	660,558	(18,709)	(2.91)	660,558
Rate Base:					
2001 - TPIS	11,230,572	10,974,266	256,306	2.28	10,974,266
2003 - TPUC	167,731	164,614	3,117	1.86	164,614
1220 - Mat. and Sup.	95,631	81,595	14,036	14.68	81,595
Working Cash	178,643	145,070	33,574	18.79	145,070
Less: Accum. Depr.	4,229,578	4,214,843	14,735	0.35	4,214,843
Less: Deferred Tax	555,517	544,462	11,055	1.99	544,462
Less: Customer Deposits	659	659	0	0.00	659
Total Rate Base	6,867,831	6,605,581	262,250	3.82	6,605,581

Rate of Return 10.00% 10.00% 10.00%

Appendix E
Ducor Telephone Company
Net-to-Gross Multiplier
Test Year 2004

1	Gross Revenue	1.00000
2	Uncollectibles*	/
3	Net Revenue	1.00000
4	Corporate State Franchise Tax Rate (CCFT) at 8.84% (tax rate times line 3)	0.08840
5	Federal Taxable Income at 34% (line 3 less line 4)	0.91160
6	Federal Income Tax (tax rate time line 5)	0.30994
7	Net Income (line 5 less line 6)	0.60166
8	Net-to-Gross Multiplier (line 1 divided by line 7)	1.66208

Intrastate Revenue Requirement

9	Adopted State Rate Base	6,605,581
10	Adopted Rate of Return at 10.00% (line 9 times 10.00%)	660,558
11	Net Revenues at Present Rates	226,086
12	Net Revenue at Adopted Rates	660,558
13	Change in Net Revenues (line 10 less line 11)	434,472
14	Total Intrastate Revenue Requirement Change (line 13 times line 8)	722,127

CHCF-A Support

15	2004 CHCF-A Support at Present Rates	1,164,547
16	2004 CHCF-A Support	1,886,674
17	2004 one-time MCI/WorldCom un-recoverable uncollectible amount	11,868
18	2004 CHCF-A Support Adopted	1,898,542

*Uncollectibles are included in line 1, Gross Revenue